AUDITOR GENERAL
Alberta

Agencies, Boards, and Commissions (ABCs) govern over 100 organizations in the Alberta public sector. Many of these ABCs have established audit committees to help fulfill governance responsibilities. This report was issued to the government and audit committees on the results of our examination of audit committee practices for organizations in the broad Alberta public sector. See also the Annual Report of the Auditor General 2002-2003 (page 24, Governance of Audit Committees) on our website at www.oag.ab.ca.

Assessment of the Performance of Public Sector Audit Committees

Agencies, Boards and Commissions

July 2003

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July 2003

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Agencies, Boards and Commissions
July 14, 2003

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1. Summary

Introduction

Agencies, Boards, and Commissions (ABCs) govern over 100 organizations in the Alberta public sector. Many of these ABCs established audit committees to help fulfill governance responsibilities. The nature and scope of operations of ABCs are significant and vary in terms of size, complexity, autonomy from government, impact on individual industry sectors or communities, and financial operations.

ABCs are involved in banking, health care, education, regulatory management, and social services – to name a few. ABCs manage over $26 billion of investments in the banking industry and pension plans. ABCs spend over $6 billion on education and over $5 billion to deliver health care. However, the financial responsibilities of ABCs are diverse. Some ABCs manage only a few hundred thousand dollars in revenue and expenses. Programs administered by ABCs are equally varied and give rise to complex and sensitive regulatory management issues and complex computer based systems.

Ministries that employ ABCs to achieve goals include Learning, Children's Services, Health and Wellness, Finance, Revenue, Human Resources and Employment, and Agriculture and Rural Development.

This report is the result of an examination of audit committee practices for organizations in the broad Alberta public sector. In it we made a number of specific recommendations that the government and individual board or audit committees should consider. These recommendations address the:

- need for appropriate financial literacy skills
- importance of a written mandate and annual performance assessment
- development of a calendar of events
- need for communication of expectations regarding the nature and timing of information reported to the audit committee.
- sufficiency of meeting minutes
- oversight of the development of a risk management framework and a process to report on risks
- review of the need for an internal audit function and a direct channel to the audit committee for employees or key stakeholders
- need to work with internal and external auditors

Audit committee practices vary greatly. The fundamental challenge facing the various ministries and the community of audit committee members is how do they ensure that needed improvement in practices occurs. This will require leadership from senior government officials, and the most skilled and experienced individuals on audit committees. We have made the following comprehensive recommendation to address this requirement.

Recommendation
We recommend that the Deputy Minister of Executive Council, working through other Deputy Ministers, take steps to improve audit committee practices in the Alberta Public Sector.

As the external auditor for all but a few of these organizations, we are prepared to work with the deputy ministers, chairs of the boards, and the audit committees to implement this recommendation. We will support the government, ministries, and each audit committee in implementing recommendations to improve audit committee performance. For example, we will work with other external governance-based organizations such as the Institute of Corporate Directors to develop and support a website dedicated to improving public sector audit committee practices. We will also continue our practice of providing information on changing demands and expectations for audit committees, participating in audit committee training sessions, and providing other support as requested by audit committees.

Background
The government relies on board governed organizations to deliver significant services and therefore, to achieve government and ministries goals. An audit committee is a key committee supporting a board in its overall governance of an organization. Audit committees typically are responsible for oversight of the relationship with the external and internal auditor, internal control, reporting of financial and other information, and risk management practices. These are all important matters that an audit committee carries out for its board.

The recent financial collapse of several high profile corporations in the private sector highlighted the importance of a well functioning audit committee. Audit committees are equally as important in the public sector.

Criteria
An audit committee should:

a) comprise independent members with sufficient financial knowledge and experience
b) operate under a written mandate that the board approves annually
c) articulate to management its information needs
d) meet regularly throughout the year with a pre-established and appropriate agenda
e) review the principal financial and regulatory risks and controls of the ABC
f) assess the effectiveness of the ABC's systems of internal controls and for legislative compliance and receive related compliance reports from management
g) oversee the ABC's processes for appropriate financial reporting and internal audit
h) maintain open and direct communication with the external auditor
i) have ready access to necessary information to enable it to accomplish its objectives

Findings

Currently, audit committees work in relative isolation of each other. The government has not provided common direction to audit committees on performance standards or guidelines. There are few situations where the enabling legislation of an ABC includes audit committee requirements or standards. However, it is not necessary to have legislation to implement good practices.

The skill sets and capabilities of audit committee members in the ABC environment are highly inconsistent. Some audit committees had the expertise to assess and implement changes to their mandate and to achieve good practices in governance. However, others clearly were uncertain about how to deal with a number of new expectations. While the degree of difference is not unexpected given the number of ABC audit committees and the differing size and scale of ABCs, the inconsistency was not confined to any one sector or to only smaller organizations. In our opinion, this is because the expectations of audit committees are under rapid change.

The Canadian Institute of Chartered Accountants, the Institute of Corporate Directors, the Financial Executives Institute and other provincial and federal government organizations and academic institutions as well as capital market regulators are all examples of the types of organizations available to provide insight and good practices. In fact, there is an overabundance of recent advice. Board members told us that they need help sorting out which is most useful for them.

Most audit committees and management of ABCs were concerned about effective governance. However, there was also a high degree of confusion about what governance practices from the private sector were appropriate for public sector ABCs and a general consensus that there is a lack of communication of good practices with respect to public sector audit committees. Many of the private sector practices can be transferred, but public sector audit committees have unique challenges. These arise from the legislation, relationship to government ministries, and board member appointment processes. Therefore, there is a need to develop specific guidance for public sector audit committees.

Implications and Risks

Audit committees play a key role in helping ABCs manage risk and meet their goals and objectives. If the quality of audit committee practices is not sufficient to balance the operating challenges and complexities of the ABCs, the audit committee may not be effective in fulfilling its governance responsibilities related to financial reporting, risk management, and legislative compliance.

2. Background and Purpose of the Audit

ABCs are normally either granted funding or are given the power to raise revenue to finance their operations. ABCs operate in varied legislative frameworks. For example, most have specific legislation that sets out their powers and duties, while others may be incorporated under the *Companies Act*. In addition, most ABCs are subject to general legislation such as

the *Financial Administration Act* and the *Public Service Act*. However, some ABCs may only be subject to certain provisions of these two Acts.

In planning and conducting our work, we considered the variability in the nature, size, and legislative frameworks of the ABCs. The purpose of this report is to assist in improving the effectiveness of public sector audit committees by describing good practices used in the private sector and in certain ABCs across the government, and by identifying common opportunities for improvement.

3. Scope and Approach of the Audit

We selected a sample (see Appendix A) of ABCs based on the following:

- complexity of the ABC in terms of size, decentralized management, nature of operations
- complexity of the financial reporting requirement of the ABC
- community impact of the ABC
- public visibility of the ABC
- volume of transactions processed by the ABC
- total budget for the ABC
- past performance of the ABC in achieving its mandate
- complexity of the legislation under which the ABC operates
- past performance of the ABC's board of directors and audit committee as observed through their minutes and agendas

Our audit covered 19 ABCs across 10 ministries. School Boards were not subject to selection because the Auditor General is not the appointed auditor.

Our analysis of the current state of audit committee performance was based on a combination of interviews with ABC audit committee members and management, reviews of minutes and related documents, and survey instruments (See Appendix B).

4. Criteria

We developed criteria that, in our opinion, are necessary to have a fully effective audit committee. We communicated our criteria to government and the sampled ABCs prior to conducting the interviews, surveys, and minute reviews. ABCs and government viewed the criteria as a reasonable expectations of good practice. The criteria were drawn from a combination of professional literature and the pronouncements of both Canadian and foreign capital market regulators, tailored to reflect key differences in the operating framework of ABCs compared to private sector enterprises. For example:

- In virtually all cases, ABCs are subject to audit by the Office of the Auditor General according to statute, so considerations related to auditor appointment as discussed in professional literature are not relevant. However, discussions that deal with other aspects of the relationship do apply. For example, the audit committee needs to

understand and comment on the scope of the external auditor's plan, assessment of risk, and consideration of the auditor's report of the external auditor.

- The private sector concept that audit committees should be empowered to use external advisors needs to be considered by audit committees. Also, the annual budget of the ABC must allow for this practice. As part of assessing the extent to which third party advisors are required, the audit committee of the ABC needs to consider the ability to access resources from their Ministry and from other sources of expertise, including the Office of the Auditor General and the Ministry of Justice.

- The nature of the operations of many ABCs, and their broad impact on the Province beyond financial matters, results in a need for a clear understanding of changes to legislation, regulations and ministerial directives and how they impact the ABC's operation. This understanding is necessary in our opinion to assess the key risks facing the organization, how effectively risks are being managed, and how effectively the ABCs mandate is being carried out.

Our criteria and the balance of the report cover the following areas: Independence and capability of audit committee members; board approved mandate and annual performance assessment; audit committee meetings and information requirements; responsibility to oversee risk management, internal controls, and financial reporting; and oversight of ABC auditors.

5. Independence and Capability of Audit Committee Members

Recommendations

We recommend that boards include in the mandates of audit committees the requirement that members be independent of the ABC, and the selection criteria for determining members.

We recommend that Executive Council consider the need for financial literacy in board appointments.

We recommend that each Deputy Minister identify and propose solutions to any barriers to accessing financial expertise required by an audit committee without it.

Criterion

The audit committee should be comprised of independent members that possess sufficient financial expertise to fulfill their responsibilities.

Findings

The practices of audit committees varied considerably with respect to this criterion. While most of the ABC audit committees examined meet the requirement of independence, there is inconsistency in the monitoring and documentation of independence requirements and how audit committee members acknowledge their independence to the ABC.

Good practices that we observed in this area included a combination of a code of ethics, or similar document, for the board and audit committee members and an annual signoff process by the committee members to document their independence.
Some ABCs, such as Universities and Colleges, are required to have employees of the organization on their board. Of the post secondary institutions examined, we noted that most had ensured that their audit committees were comprised of members who were not employees of the institutions. We believe that a requirement for committee members to be independent of the ABC should be included as part of the written terms of reference of the audit committee.

Audit committee members should hold themselves free of significant commercial relationships with their ABC, other than the receipt of normal goods and services provided by the ABC. These transactions should be provided under the same terms and conditions that apply to the general public. Regardless, disclosure of significant transactions between audit committee members and ABCs is important. We note that there are good examples of leading audit committees who do review the nature of the relationships that their members have to the ABC. Also, last year there were audit committee members who, acting responsibly, resigned from their committees as either the individuals or their employers were becoming suppliers of services to the ABC.

The financial background and experience of members of audit committees varied across the ABCs examined. Significant ABCs were observed where the general financial literacy of audit committee members was not strong or the committee did not have a financial expert as one of its members. The lack of financial literacy on the committee was evident through the inability of some audit committees to effectively dispose of financial or governance related matters on their agenda. This resulted in some critical governance decisions being deferred for over one year.

We noted a few examples where ABCs invited non-board members to participate in their audit committees to provide outside financial expertise. Other ABCs have expressed concern over this as they received advice that the legal status and indemnities associated with board members of the ABC would not apply to such committee members. This is an area that can also be impacted by the enabling legislation for ABCs. However, it is an approach to obtaining the necessary expertise. Each ABC that is considering including non-board members on the audit committee will need to consider the legal implications of this action.

ABC boards are appointed through a process based on recommendations from the Minister or Executive council. We noted a few ABCs that requested new members be appointed to their board to increase the skill sets available for their audit committee.

Implications and Risks
The effectiveness of an audit committee is dependent on the skill sets and capabilities of its members. The credibility of an audit committee is dependent on the perception as well as the fact that members are objective and independent in their decision-making. The lack of adequate financial literacy and independence on a committee increases the risk of inadequate governance practices or a lack of credibility in the decisions that are approved.

6. Board Approved Mandate and Annual Performance Assessment

Recommendations
We recommend that audit committees work with their boards to establish a written mandate and ensure that it is consistent with the requirements of the Minister.

We recommend that audit committees establish annual processes to review their performance against their mandate and report their findings along with any proposed changes to the board.

Criteria
The audit committee should operate under a written mandate that is reviewed and approved by the board of directors annually, and that outlines responsibilities, composition, authority, and reporting requirements.

The audit committee should have a process to annually assess their performance against their mandate and report proposed changes to the board for approval.

Findings
We noted that approximately thirty percent of the ABCs examined had either updated their mandates recently or were in the process of updating their mandates to reflect the significant changes that were taking place with respect to private sector audit committee requirements. In contrast, we noted that a number of ABCs had not reviewed their audit committee's mandate in years. Clearly defined terms of reference support audit committees in balancing their priorities and allow management and auditors to more clearly understand what is expected from them.

Some audit committees indicated that their mandates were reviewed annually as part of a process to assess their performance. The audit committee would then recommend changes to its mandate to the board. The process of assessment was either done through open discussion, questionnaires or other assessment techniques. Some audit committees also use third party facilitators to help direct the discussion and keep the discussion focused on the broad purposes of the ABC, its board and the delegated responsibilities of the audit committee.

Implications and Risks
Effective governance requires audit committees to cover a variety of areas. Without a clear written mandate there is a risk of audit committees not considering all of the areas necessary to accomplish effective governance.

Criteria used in this report should be reviewed by ABCs and incorporated in the audit committee mandates or terms of reference, as appropriate. Appendix C is an example of a self-assessment guideline for audit committees. Appendix D provides an audit committee mandate framework.

7. Audit Committee Meetings and Information Requirements

Recommendations

We recommend that audit committees develop an annual plan of events that ensures all areas of its mandate are covered at least annually and areas of priority are covered as frequently as necessary. The need for an annual plan should be included in the audit committee's mandate.

We recommend that audit committees review their annual plan with the management and auditor of the ABC and outline expectations of the nature and timing of information required from both groups.

We recommend that audit committees review their minutes to determine if the minutes include sufficient detail to evidence due diligence that the audit committee exercised in making decisions.

Criteria

The audit committee should have a regular calendar of meetings throughout the year with a written agenda of items for each meeting.

The audit committee should clearly articulate to management their expectations related to timely and complete information necessary to fulfill its mandate and should hold management accountable for the quality and accuracy of the information provided.

Minutes of audit committee meetings should be of sufficient detail to document the items covered in each meeting, including a brief summary of the key points in the deliberations and the final decision on each item by the audit committee.

Findings

The audit committee's satisfaction with the information received was largely dependent on the scale of activities that they were trying to cover. Approximately half of the audit committees covered by our audit had well defined calendars of events and information requirements. Management understood the information requirements and delivered reports usually one week before the meeting. Conversely, we noted audit committees that repeatedly carried forward agenda items and did not have an effective calendar of events to balance the time spent on topics. We also interviewed audit committee members who were concerned that they lacked the knowledge necessary to assess whether the information they were receiving was adequate.

This is an area where ongoing dialogue with auditors, management, and other experts is needed to support and educate audit committee members on the key issues faced by the ABC in terms of its operations, financial requirements and audit issues to help the audit committee determine the appropriate level of due diligence necessary to govern these areas.

There were significant differences in the level of detail in the recording of minutes of audit committee meetings. The level of documentation ranged from highly detailed records of discussions to extremely brief notations of topics covered and final decisions taken. While the level of detail included in a set of minutes is to some degree a matter of organizational history and the style of the individual recording secretary, there are, in our opinion, basic standards that should be met.

A set of minutes, which should be distributed to all board members, should be of sufficient detail to evidence whether the audit committee exercised due diligence in fulfilling its mandate. Evidence that would demonstrate this includes:

- the nature of the deliberations in terms of the nature of the questions raised by the audit committee
- whether there were any changes made to an item brought before the committee, based on its deliberations
- the record of a final decision.

This level of detail would allow members who were unable to attend the meetings, members of the board who are not on the committee, and the ABC's auditors to understand how decisions were arrived at by the audit committee. Also, the level of detail needs to be sufficient to allow other third parties, who have a right to review minutes, to gain a similar understanding.

Implications and Risks
An annual plan of events and clearly documented minutes help to focus the priorities of audit committees as well as evidence their due diligence as part of governing their ABC. See Appendix E for an example of a summary audit committee calendar. Without a calendar of events, there is a risk of audit committees not balancing their time and efforts throughout the year on key areas of their mandate. Without well documented minutes, there is a risk that the audit committee could not support the validity of their due diligence process in reaching decisions.

8. Responsibility to Oversee Risk Management, Internal Controls and Financial Reporting

Recommendations
We recommend that audit committees (or board) work with management to ensure that a risk framework is developed for their ABC and that management reports regularly on their processes to mitigate the key risk areas identified. Some of the areas which should be considered in developing this reporting include:

- **Management's assessment of the key strategic, operating and financial risks faced by the ABC and the controls they have in place to mitigate against these risks.**
- **Management's review of any changes in governing legislation, regulations and ministerial directives and the impact on the ABC's operations and financial reporting requirements.**
- **Management's certificate of compliance addressed to the audit committee outlining their activities to ensure compliance with key regulatory requirements and internal control practices.**
- **Internal and external auditors' assessments of risks and the effectiveness of the internal controls of the ABC as they relate to financial reporting requirements.**

We recommend that the board consider establishing a direct channel to the board of the ABC or its audit committee for employees and other key stakeholders to express concerns on the conduct of the organization.

Criteria

The audit committee should review as part of their regular agenda, the key financial and regulatory risks of the organization and the steps that management takes to manage and control these risks.

The audit committee should review information that supports the compliance of the ABC with all legislative and regulatory requirements as well as assess the effectiveness of related internal controls. The assessment of internal controls should include certifications of compliance from management and results of the work of internal and external auditors. The audit committee should provide a channel for non-executive members of the organization or third parties to present concerns on the conduct of the organization.

The audit committee should oversee the organization's process for sufficient and appropriate financial reporting.

Findings

One of the areas of greatest change in the expectations for private sector audit committees is the requirement of capital market regulators that audit committees become much more actively engaged in the risk management activities of the business. As part of our review of ABCs, we found a wide range of activities being undertaken in the risk management area, from no substantive discussion of these matters to some very detailed discussion and analysis of risks. In a small number of ABCs we found that the oversight of risk management was covered by the board as a whole or by a different committee of the board. We were not concerned with the assignment of responsibilities among board committees or the board itself, other than to ensure that they were being carried out.

Where committees other than the audit committee looked at risk management issues, we noted that good practice was to ensure there was sufficient overlap of members with the audit committee so that the audit committee had access to the understanding of organizational risk necessary to fulfill their governance requirements.

A key role of audit committees is the oversight of the financial reporting process. The review of reported financial results by the audit committee with management and auditors in attendance was a standard part of each audit committee's year.

Expectations of audit committees in the area of monitoring the financial reporting process are changing. Previously, the expectations were that the audit committee was to be satisfied that the accounting policies, practices and management estimates were allowed by professional standards. Now, expectations are that the committee will consider the most appropriate or preferred option among alternatives to ensure complete, accurate and plain disclosure. This change in expectation is another reason to ensure that audit committees have sufficient financial expertise to be able to discuss these items with management and auditors. It also requires more work by the auditors of the ABC to educate audit committees on alternatives, and why the auditors are either in agreement or hold a differing view from management on the appropriateness of the choices made.

Implications and Risks
Without clearly defined risk management expectations and reporting processes, there is a risk that audit committees will not maintain sufficient oversight of the different risk areas for the ABC in order to effectively govern those areas of the organization.

9. Oversight of the ABC's Auditors

Recommendations
We recommend that audit committees of ABCs who do not have an internal audit function include as part of their annual assessment process a discussion as to whether one is needed. Items to consider include:

- **the size and geographic reach of the ABC**
- **the level of subject matter expertise required to understand and assess complex transactions as part of the ABC's core activities**
- **the number of activities or programs administered by the ABC**
- **the level of understanding and effectiveness of risk management activities throughout the ABC's operation**
- **the past assessment of external auditors on the quality and condition of internal controls**
- **special regulatory or legislative reporting requirements beyond standard financial statements**

We recommend that audit committees include as part of their standard calendar of events a meeting with their external auditor without management present to ensure that there is the opportunity to have open dialogue between the audit committee and their auditor.

We recommend that audit committees include as part of their standard calendar of events a regular status report by management on the actions taken to respond to items raised in the management letter from their external auditor and any findings from their internal auditor, if applicable.

Criteria

The audit committee should have considered the establishment of an internal audit function and, if one exists, the audit committee should oversee it, this includes a direct reporting relationship of internal audit to the audit committee.

The audit committee should establish clear expectations for candid and open communications with the external auditor.

Findings

Internal audit functions provide an ABC with access to expertise and advice on the evolution of risk management, internal controls and financial, regulatory and legislative compliance of the ABC's activities. As with all business decisions, there is a need to assess the cost and benefit of establishing and maintaining an internal audit function either within the organization or from a third party. We found that where internal auditors were in place within ABCs, they were an active part of audit committee meetings and they provided useful reporting to the audit committee on key risk areas and other items of interest to the audit committee. In general, there were some fairly large ABCs who did not have an internal audit function and there was clear debate within some as to whether it would be of benefit to the organization.

Depending on the size and significance of the ABC involved, audit committees need to be part of the debate as to whether an internal audit function should be established for their organization.

In most cases, the external auditor was the primary source of independent information to the audit committee to support the audit committee in fulfilling its mandate. As a result, it is critical that the audit committee have open and candid discussions with its auditor as part of its regular meetings with management and without management present. We noted that the process of meeting with the external auditor and the auditor's reporting to ABCs was viewed as effective. However, more information from the auditor may be required for some audit committees to understand the committee's role in determining audit risk and the scope of the financial statement audit.

A key source of value from the external audit process is the letter of recommendations presented by the external auditor to management and the audit committee. We noted significant inconsistencies between different audit committees in the tracking of recommendations and their resolution. Holding the management of the ABC accountable to implement recommendations from external, and if applicable, internal auditors, is a key part of the oversight function of the audit committee.

Implications and Risks
Internal audit groups add substantial knowledge and skills about risk management and control in their organizations. They also help to mitigate against unrecognized or ineffectively managed risk areas through their audit activities.

Open direct dialogue with the external auditor helps to educate audit committees on their risk management and oversight responsibilities as well as helping the auditor in assessing risk in the organization and focusing audit effort.

10. Acknowledgement

We would like to acknowledge the ABCs involved in this audit for their cooperation and assistance in helping to share good audit committee practices. We believe that guidance and support through member selection, and ongoing dialogue between Ministers, their ABCs and auditors is needed to develop consistent good practice and maintain Alberta's leadership position in the area of fiscal responsibility and financial stewardship.

KH/as

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List of ABCs Examined

List of ABCs Examined

We surveyed audit committee members and requested documentation from the following 11 ABCs:

- Calgary Rocky View Child and Family Services Authority
- Persons with Developmental Disabilities Central Alberta Community Board
- Credit Union Deposit Guarantee Corporation
- Public Service Pension Plan Board
- Alberta Cancer Board
- Alberta Alcohol and Drug Abuse Commission
- Chinook Regional Health Authority
- Alberta Research Council
- Alberta Securities Commission
- Norquest College
- Alberta Capital Finance Authority (formerly known as Alberta Municipal Financing Corporation)

We also conducted more in-depth examinations of 8 ABCs to varying degrees. These examinations generally included: interviews of audit committee members, certain board members, and management; assessments of board and audit committee minutes and agenda packages; and a review of audit committee mandates. The following ABCs were examined:

- Workers' Compensation Board
- Calgary Health Region
- Grant MacEwan College
- University of Calgary
- Alberta Energy and Utilities Board
- Local Authorities Pension Plan Board
- Alberta Treasury Branches
- Agriculture Financial Services Corporation

Appendix B

Practices of Public Sector Audit Committees Survey

Practices of Public Sector Audit Committees Survey

Organization: _____

Completed by: Name _____

Title _____

Date: _____

Audit Committee Establishment:

1. Has the board formed a formal audit committee? **YES / NO**

   If not, was the need for an audit committee formally discussed by the Board of Directors? **YES / NO**

   If yes, please provide copies of the minutes documenting the decision.

2. If there is a formal audit committee please provide a list of the members.

3. Please describe the process used to select audit committee members including the criteria established, if any, to assess their background and previous experience?

   _____
   _____
   _____
   _____
   _____

4. Please describe the process used to establish that members of the audit committee and their immediate family are free from conflicts of interest including an assessment that they are not economically dependant on the organization. Also, note if any audit committee members have any relationship to the organization other than sitting on the Board of Directors:

   _____
   _____
   _____
   _____
   _____

Please answer the following questions about the responsibilities of the audit committee. If an audit committee has not been formed, please answer the following questions with reference to how the Board directly fulfills these responsibilities.

Audit Committee Information:

5. Does the audit committee have a written mandate that has been approved by the Board? **YES / NO**

   If yes, please attach a copy.

6. If there is a written mandate, is it reviewed annually and updated as required by the Board? **YES / NO**

7. Does the audit committee self-assess its performance against its mandate? **YES / NO**

   If an assessment is completed how often is this being done? Please provide copies of the most recent minutes that note the performance and results of the assessment.

8. Does the audit committee report regularly to the board? **YES / NO**

   If yes, attach the most recent report as well as the minutes from the Board where it was presented and discussed. Please indicate how often reports are provided to the Board.

9. Does the audit committee regularly review information related to the organization's financial risks and managements' control framework to mitigate these risks? **YES / NO**

   If yes, please provide copies of the most recent reports received by the audit committee as well as minutes where these items were reviewed.

10. How does the audit committee regularly assess whether there have been changes in the legislation governing the organization or other regulatory changes which impact areas under the audit committee's mandate?

Please provide copies of the most recent minutes where these items were reviewed.

11. Does the audit committee regularly assess whether there have been new directives from the Ministry that impact areas under the audit committee's mandate? **YES / NO**

    If yes, please provide copies of the most recent minutes where these items were reviewed.

12. Do the audit committee members have the resources to regularly assess whether there are changing expectations related to corporate governance and audit committee expectations? **YES / NO**

    If yes, please provide copies of the most recent minutes where these items were reviewed.

13. Has the audit committee established a channel outside of management to receive information from staff or third parties on the conduct of the organization? **YES / NO**

Audit Committee Meetings:

14. Does the audit committee have an annual calendar of items to be considered in order to fulfill their mandate? **YES / NO**

    If yes, please provide a copy for the most recent year.

15. Do the audit committee members receive their material to be reviewed at a meeting in advance? **YES / NO**

    If yes, what is the normal amount of time given to members to review the material?

    _____

    _____

16. Is there a clear agenda of items for all audit committee meetings? **YES / NO**

17. Are the audit committee meetings adequate in number and of sufficient length to adequately cover their annual calendar and meeting agendas? **YES / NO**

18. During the year, did a quorum of audit committee members attend all meetings? **YES / NO**

Communication with Management:

19. Is there a clear written statement of expectations to management by the audit committee of the information required to fulfill their mandate? **YES / NO**

    If yes, please provide a copy.

20. Does the audit committee provide feedback to management whether the information provided has met the audit committee's expectations. **YES / NO**

    If yes, please provide copies of minutes.

21. Does the audit committee agenda include an evaluation of the quality and accuracy of financial information provided by management. **YES / NO**

Please provide copies of the minutes noting the review. In addition, please describe the evaluation process including accessing necessary financial expertise as appropriate.

_____
_____
_____
_____
_____

Internal Audit

22. Is there an internal audit function in place for the organization or has the audit committee discussed the need for such a function? **YES / NO**

Only answer the following questions if there is an internal audit function.

23. Is the internal audit mandate set and regularly reviewed by the audit committee? **YES / NO**

24. Does the internal audit group meet with the audit committee independent of management? **YES/NO**

25. Is the scope of work completed by the internal audit group approved by the audit committee? **YES / NO**

26. Is there a direct channel of communication between the chair of the audit committee and the internal audit function? **YES / NO**

27. Does the audit committee receive appropriate written reporting from the internal audit function? **YES / NO**

    If yes, please provide copies of reports received within the last year.

External Audit

28. As part of regular audit committee meetings does the audit committee meet with the external auditor without management present? **YES / NO**

29. Does the audit committee have direct and open discussions with the external auditor on all areas of its mandate? **YES / NO**

    If so, please describe the nature of the areas covered:

    _____
    _____
    _____
    _____
    _____

30. Does the audit committee review the details behind the external auditor's recommendations and the scope and nature of the work performed? **YES / NO**

31. Does the audit committee hold management accountable to act on the recommendations of the external auditor? **YES / NO**

If so, please describe the process used by the audit committee to accomplish this:

_____
_____
_____
_____
_____

** ** **

Upon completion, please return to:

The Auditor General of Alberta
Attn: Arlene Sideroff
8th Floor, 9925 – 109 Street
Edmonton, Alberta
T5K 2J8

We may be required to follow up on your survey responses. Please indicate below a contact name, phone number and appropriate times to call. Feel free to attach comments to clarify your responses as required.

Thank you in advance for your assistance.

Appendix C

Example of Self Assessment Guide

Audit Committee Effectiveness Self-Assessment Guideline		
RATE EFFECTIVENESS **1 = Less Effective** **5 = Highly Effective**		**Comments**
Risk Management		
1. The audit committee has assessed the effectiveness of the risk management processes used by management.	1 2 3 4 5	
2. The audit committee meets periodically with management and auditors to better understand the risks facing the organization and how those risks are monitored for possible financial reporting implications including risks related to critical third-party interdependencies (suppliers, customers, outsourced operations, counterparties) that affect the organization's operations	1 2 3 4 5	
3. The audit committee questions management and the external auditor about how they assess the risk of material financial misstatement, what the major risk areas are, and how they respond to identified risks.	1 2 3 4 5	
4. The audit committee has an understanding of the organization's critical business continuity risks and management's plans to address such risks.	1 2 3 4 5	
5. The audit committee asks the external auditor about pressures on management that may have an impact on the quality of financial reporting, such as performance measures.	1 2 3 4 5	
6. The audit committee makes enquiries of management and the external auditor on the experience and sufficiency of the audit team assigned to the engagement.	1 2 3 4 5	
7. The audit committee reviews the external auditor's scope and audit plan to its satisfaction prior to the commencement of the audit.	1 2 3 4 5	

Audit Committee Effectiveness Self-Assessment Guideline		
RATE EFFECTIVENESS **1 = Less Effective** **5 = Highly Effective**		**Comments**
Risk Management (continued)		
8. The audit committee chair meets with the external and internal auditors outside the regularly scheduled meetings to encourage open and frank dialogue.	1 2 3 4 5	
9. The audit committee chair communicates to the external auditor the expectation that the external auditor will contact the committee when necessary.	1 2 3 4 5	
10. The audit committee is satisfied that management exhibits the proper "tone at the top" and is committed to promoting high quality financial reporting and strong internal controls.	1 2 3 4 5	
Financial Reporting and Compliance		
11. The audit committee requests and obtains sufficient information related to important financial reporting issues, such as the use of complex financial instruments, areas of judgment or high subjectivity, unusual transactions, and changes in accounting policies.	1 2 3 4 5	
12. The audit committee understands why critical accounting principles were chosen and how they were applied. The Audit Committee considers the appropriateness of financial accounting and reporting, including the transparency of disclosures, not just the acceptability of it under GAAP.	1 2 3 4 5	
13. The audit committee understands the process used by management to identify related parties and considers the transparency of the related-party disclosure.	1 2 3 4 5	

Audit Committee Effectiveness Self-Assessment Guideline		
RATE EFFECTIVENESS **1 = Less Effective** **5 = Highly Effective**		**Comments**
Financial Reporting and Compliance (continued)		
14. The audit committee reviews all unrecorded audit adjustments with management and the external auditor and understands their potential impact on financial reporting as well as why they were not recorded.	1 2 3 4 5	
Internal Control Environment		
15. The audit committee receives enough information to review, understand, and assess the organization's system of internal controls, including information technology controls.	1 2 3 4 5	
16. The audit committee makes enquiries of the external auditor and management on the experience and sufficiency of staff in the finance and internal audit organizations.	1 2 3 4 5	
17. The audit committee reviews the internal plan annually.	1 2 3 4 5	
18. The audit committee reviews the management recommendation letters, written by the internal and external auditors, to ensure that all significant matters raised are properly addressed.	1 2 3 4 5	
19. The audit committee assesses both the compliance effectiveness and the value of service of the internal audit department.	1 2 3 4 5	
Corporate Governance		
20. The board of directors or the audit committee assesses the financial literacy of audit committee members	1 2 3 4 5	
21. The audit committee has an orientation program to educate new members on their responsibilities.	1 2 3 4 5	

Audit Committee Effectiveness Self-Assessment Guideline		
RATE EFFECTIVENESS **1 = Less Effective** **5 = Highly Effective**		**Comments**
Corporate Governance (continued)		
22. The audit committee participates in a continuing education program to enhance audit committee members' understanding of relevant accounting and reporting areas.	1 2 3 4 5	
23. Management, the external auditor, and the board of directors provide input on the audit committee charter and meeting agendas.	1 2 3 4 5	
24. Audit committee meetings are scheduled with sufficient time to cover all agenda items.	1 2 3 4 5	
25. The audit committee reviews significant issues with management and the external auditor prior to annual financial statement release.	1 2 3 4 5	
26. The audit committee is informed of communications received from governmental or regulatory agencies or similar parties relating to areas of alleged violations or noncompliance.	1 2 3 4 5	
DISCLAIMER FOR THE EFFECTIVENESS SELF-ASSESSMENT This questionnaire is limited in nature and does not encompass all matters relating to audit committee effectiveness that may be pertinent to a specific audit committee's self-assessment. No representation is made as to the sufficiency of this questionnaire for an entity's purposes.		

Appendix D

Audit Committee Mandate Framework

Audit Committee Mandate Framework
Financial Reporting • Reviews and recommends approval to the board of annual financial statements • Discusses with management and the external auditor, the quality of the annual financial statements and the accounting principles, presentation/disclosure standards used by the entity. • Discusses with management any significant variances between comparative reporting periods and across comparable operating units. • In discussion with management and the external auditor, identifies problems or areas of concern, and ensures such matters are satisfactorily resolved. • Requires a representation letter from management similar to that provided to the external auditor.
Accounting Policies • Discusses with management and the external auditor to ensure that the underlying accounting policies, disclosures and key estimates and judgments are considered to be the most appropriate in the circumstances (within the range of acceptable options and alternatives). • Proactively discusses and reviews the impact or proposed changes in accounting standards, legislation, or regulations on the entity's financial statements. • Reviews with management and the external auditor any proposed changes in major accounting policies, and key estimates and judgments that may be material to financial reporting. • Oversees the results of management benchmarking the entity's accounting policies to those followed in its industry.

Audit Committee Mandate Framework

Risk and Uncertainty
• The board of the entity may decide that the audit committee's role is expanded to cover policies and programs related to principal business risks as well as financial risks resulting in the audit committee serving as a "risk management committee" as well as an audit committee.
• The board of directors, in consultation with management, identifies the principal business risks, decides on its "appetite for risk", approves related risk management policies, and assigns oversight responsibilities to board committees and the board as a whole.
• The audit committee's focus is at a minimum on financial risks and ensuring that they are being effectively managed or controlled, by:
  • reviewing the appetite for financial risks as set forth by management and the board
  • reviewing the entity's policies for the management of significant financial risks
  • reviewing management's assessment of the significant financial risks facing the entity
  • reviewing management's plans, processes and programs to manage and control such risks
• The audit committee requests the external auditor's opinion of management's assessment of significant financial risks facing the entity and how effectively they are being managed or controlled.

Controls and Control Deviations • Sets a clear expectation for a "tone at the top" that conveys basic values of ethical integrity as well as legal compliance and strong financial reporting and control. • Reviews the plans of the internal and external auditors to ensure the combined evaluation and testing of control is comprehensive, well coordinated, cost effective and appropriate to risks, business activities, changing circumstances, etc. • Receives from management and auditors, reports on all major control deviations, or indications/ detection of fraud, and how such control breakdowns have been corrected. • Reviews appointments of key people involved in financial reporting • Reviews fraud prevention policies and programs, and monitors their implementation.
Compliance with Laws and Regulations • Reviews regular reports from management and internal and external auditors concerning the entity's compliance with financial related laws and regulations. • Provides input to and reviews the entity's code of ethics or conduct.

Audit Committee Mandate Framework

Relationship with the External Auditor

- Establishes effective communication processes with management and the external auditor so it can objectively monitor the quality and effectiveness of the external auditor's relationship with management and the audit committee.
- Reviews and approves proposed audit scope, focus areas, timing and key decisions (e.g., materiality, reliance on internal audit) underlying the audit plan
- Receives regular reports from the external auditor on the progress against the approved audit plan, important findings, recommendations for improvements and the auditors' final report.
- Meets regularly in private with the external auditor.

Relationship with the Internal Auditor

- Reviews:
  - internal auditor's terms of reference
  - plan and budget of internal audit (financial and operational activities)
  - majority of reports issued by internal auditor
  - management's response to internal auditor's reports
- Approves the reporting relationship of the internal auditor to ensure appropriate segregation of duties is maintained and internal auditor has direct access to the audit committee.
- Ensures the internal auditor's involvement with financial reporting is coordinated with the activities of the external auditor.
- If no internal audit function exists, the audit committee regularly reviews the need for such a function.

Other Responsibilities and Issues

- The audit committee and its chair take responsibility for setting forth their expectations for their information needs (e.g., nature, level of detail, timing, preparer, etc.) and ensures the information they receive is responsive to important performance measures and to the key risks the committee oversees.
- The audit committee has the explicit authority (and uses when appropriate) to investigate any matters that fall within its terms of reference.
- Receives reports from the internal and/or external auditors on their review of officer and senior executive expense accounts.
- Reviews and provides its views on funding matters, financing strategies, capital structure, etc., as well as the appropriate accounting and presentation issues related thereto.
- Reviews information and disclosures (e.g., posting of annual report and financial statements) made through the entity's website, if applicable.
- Establishes procedures for dealing with complaints from employees and others related to financial reporting, controls, corporate conduct and code of ethics.

Summary Audit Committee Calendar

EXAMPLE OF SUMMARY AUDIT COMMITTEE CALENDAR

- *Assumes a minimum of two meetings per year for an entity with a March 31 year-end*

Finance and Audit Committee

	May/June	January
Mailout date	*1 week before meeting*	*1 week before meeting*
Meeting date		
Topics:	Review and approve annual financial statements.	Review year to date financial statements compared to prior year and budget.
	Review management letter and responses.	Review Terms of Reference of the Audit Committee and results of self-assessment.
	Meet independently with external auditor.	Review Auditor General's Report.
	Review results from prior year internal audit plan and management actions.	Meet independently with internal auditor.
	Review issues log of significant business risks and management actions.	Review and approve next years budget and business plans.
	Review annual general meeting agenda and materials.	Review status report from management in addressing management letter issues.
	Review preliminary budget planning assumptions for next fiscal year.	Review issues log of significant business risks and management actions.
	Review year to date financial statements compared to prior year and budget	Review results to date from internal audit plan and management actions
	Review chairman expenses	Review next year's proposed internal audit plan
		Entrance meeting with external auditor
		Approve next year's risk management plan
		Review chairman expenses

Example of Certification by Management

Example of Certification by Management

I, *<identify the certifying officer, the ABC, and his or her position at the ABC>*, certify that:

1. I have reviewed the annual financial statements of (the *ABC*) for the year-ended _____.

2. Based on my knowledge, the annual financial statements are free of material errors or misstatements.

3. Based on my knowledge, the annual financial statements including the notes thereto fairly present in all material respects the financial condition, results of operations and cash flows of the ABC as of the date and for the periods presented in the financial statements.

4. The ABC's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining internal controls for the ABC, and we have:
   a) designed those disclosure controls and procedures, or caused them to be designed under our supervision, and implemented those disclosure controls and procedures.

   b) designed those internal controls, or caused them to be designed under our supervision, and implemented those internal controls, to provide reasonable assurances that the ABC's financial statements are fairly presented in accordance with generally accepted accounting principles.

5. I have disclosed, based on my most recent evaluation, to the ABC's auditors and the audit committee of the ABC's board of directors or persons performing the equivalent function:
   a) all significant deficiencies and material weaknesses in the design or operation of internal controls.

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the ABC's internal control.

6. I have disclosed to the audit committee whether there were significant changes in the ABC's internal controls or in other factors that could significantly affect internal controls, during the period covered by the annual financial statements, including any actions taken to correct significant deficiencies and material weaknesses in the ABC's internal controls.

Date: .....

_____

[Signature]

[Title]

8th Floor, 9925-109 Street
Edmonton, Alberta
T5K 2J8

www.oag.ab.ca